

## CHOOSING A SBA LENDER

"SHOW ME THE MONEY!" might be the only words on the lips of many future entrepreneurs searching for the right SBA lender. I would suggest you resist the urge since it may do more harm than good. Instead, small business owners should first think carefully about what qualities and attributes they want in a lender, and then interview lenders to determine the best fit their financial needs.

Many entrepreneurs look no further than just getting their loan approved and fail to look down the road. Since accessing capital is one of the most critical components of being a successful businessperson, selecting the right lender may be the most important business decision of all.

Why is having a solid source of financing so important to a successful business? Many people dream of starting and managing their own business. Some actually do start successfully and achieve their dream; others keep on dreaming. Why is this so? What separates the successful entrepreneur from the unsuccessful? The answer: 1) Failure to plan and 2) failure to access funds when needed.

Finding the right lender may seem difficult at times, but our economy depends heavily on small businesses and when they succeed, everyone involved wins too. Our local economy grows, since your business helps it to grow. A successful business also creates new jobs and adds an important product or service to the community. And this makes it important to SBA. It is for all these reasons that SBA's participating lenders may be willing to invest in your business and as your business profits, so do our communities.

### BEFORE YOU APPROACH A LENDER

**Before you apply for a business loan**, the most important document to prepare is a written loan proposal or a Business Plan. SBA's resource partners: [SCORE](#), the [Small Business Development Centers](#), and [Women's Business Centers](#) are available to assist you. Begin your loan proposal with a cover letter. Explain who you are, your business background, nature of your business, the amount and purpose of your loan request including terms of repayment, how the funds will benefit your business, and how you will repay the loan. Your Business Plan is the most important document you will have, as this is the ladder to success and accessing your needed capital. There are many different business plan outlines, including computerized formats that are available for preparation of a loan proposal. Include the industry-specific details to make the reader more comfortable with how your particular business operates and what industry trends affect it.

### WHICH LENDER SHOULD I APPROACH?

There are many different types of lenders to choose from and small business owners should consider looking for a mentor or partner rather than a loan source. Relationship building — rather than one-stop shopping — can be the key to making sure your business needs are considered and handled for the long run rather than the short term. It is important to remember that lenders, including those that participate with SBA, all have specific lending criteria and no two lenders are alike. Make sure your selection measures up to these tests:

**TEST 1: SBA PARTICIPATION:** First, choose a bank that participates and has been successful in SBA's loan programs. This will insure the loan terms and conditions are affordable. The most active and expert participating lenders qualify for SBA's *Preferred Lenders Program* (PLP). This program offers a quicker turnaround on a SBA loan application.

This designation is given to those participating lenders that have proven they have a thorough knowledge of SBA rules and regulations; have met the SBA's underwriting standards; are experienced in both documentation and loan servicing, and done a sufficient volume of loans to justify participation in this program. This does not mean you should disregard a smaller, community lender that does not participate in the PLP Program. For a lender to qualify for PLP they also must process a specific amount of loans to maintain this status and many smaller community lenders may not have the market or resources to maintain a high volume of activity.

**TEST 2: STABILITY:** Look for a bank that is stable with a proven record of accomplishment. Be careful with lenders that have a

recent history of mergers or acquisitions as their focus may be on other priorities rather than approving small business loans. SBA research shows small business lending drops off after mergers or acquisitions by banks on a national level.

**TEST 3: REAL PEOPLE:** Find a local lender that will sit down and listen to your needs, future and present. Having a real name and face to contact regarding questions is very important. Participating lenders should be selected based on their interest in your industry and a willingness to get to know the ins and outs of your business. They should want to feel eager to build on your success as much as you do. Look for lenders that are eager to meet you at your place of business. A good banker likes to meet on site to learn more about the borrower and the business.

**TEST 4: EXPERIENCE:** Look for a lender who is knowledgeable in your industry, and who is experienced in making loans to small businesses. Also, make sure the person you are dealing with is knowledgeable in SBA programs and can answer eligibility questions with ease. You do not want to spend time with a junior banker who is rotating their way up the ladder and may not have the answers you need. Find someone who looks at the bigger picture, who perhaps suggests alternative financing options such as the SBA 504 Loan Program or Microloans and demonstrates a desire to work to “get the job done correctly” that is good for you in the long haul.

The person should be creative and not willing to accept “no, we can’t do that loan.” Instead, the lender should be asking, “how can we get this loan done,” and if unsure, contact the local SBA office for guidance or clarification. More importantly, the lender should seem interested in the discussion.

Finding a good lender is not saying, “just give me the loan arrangement” but rather the beginning of a mutually beneficial relationship. That is why you need to connect with your banker, as they should be familiar with your business from the up-start stage through the succession plan when it is time to sell or retire. Look for someone who will get to know your company’s history and potential for success can help speed up the loan process and increase the chances for approval. This is especially true when you may require additional money for more equipment, real estate or working capital.

I have often heard that a “Good bankers often acts as an informal board member that you can share ideas with.” Your banker should not only provide financing, but partner with you to provide information on cash management solutions, checking and saving accounts, and other personal or business financial services. Do not forget to consider credit unions as many are now actively involved in small business lending.

**TEST 5: HOW LONG WILL IT TAKE?** Look for a lender that will give you a written proposal that clearly identifies the rate, term, conditions, all fees and how long the process will take. Generally, the best SBA lenders will respond to a complete application with a written proposal within a week. Also, there are many SBA loan programs to choose from, including real estate loans, term loans, and lines of credit. This may make the process longer. Remember, all SBA lenders have the correct forms you need to start the application process.

**TEST 6: ASK THE RIGHT QUESTIONS.** You need to ask the RIGHT questions of any lender BEFORE you start the application process:

## **QUESTIONS TO ASK A BANKER WHEN SHOPPING FOR A SBA LOAN**

Here are some suggested questions to ask the lender when you are shopping a loan. This can be asked over a telephone conversation but make sure you talk with a person that knows about SBA loans:

1. ***Are you a SBA lender?*** You want to make sure they are an approved SBA lender. Most will have signs or decals that indicate they participate in SBA loan programs.
2. ***What type of loans do you offer?*** SBA offers many types of loans so make sure they are qualified in the type you need. Ask them how many they have done and funded.
3. ***What type of terms, conditions, and interest rate are you offering?*** It is important to get a feel for their rate and terms BEFORE you start the application process.
4. ***What are your credit requirements for start-up (or expanding) business?*** This is very important, as you do not want to approach a lender if they do not offer a loan with specific credit limitations you do not meet. For example, how much do they require as a down payment or what is their definition of “good credit history.”

5. ***How long does it take until disbursement?*** Find out how long their loan process to funding is for the type of loan that you are seeking. Again, ask how many SBA loans they have done.
6. ***Do you have any industry limitations?*** Find out what their loan limitations or restrictions are. For example, they do not offer start-up loans or do not make loans to businesses in specific industries such as restaurants or C-Stores.
7. ***Where can I go to get more information about your bank?*** The point here is to see if they have a web site or some form of printed information. If they do, ask to obtain a copy.
8. ***Do you specialize in any type of financing or industry?*** If you are seeking a specialized loan such as a loan to purchase a Franchise, find out if they specialize in this source. Again, ask how many they have done or do they specialize.
9. ***Do you require business-banking relationship or can I just apply for a loan?*** Many lenders help offset the cost of a loan by requiring you to become a deposit customer (personal or business) before they will consider a loan. This is a common practice and if you do not want to open a checking account, seek someone that will not require it.

## LOAN PRE-APPROVAL

The concept of "pre-approval" is a very common lending practice by many lenders in Arizona. Most offers are seen in credit card "deals" or home improvement consumer loans. Commercial lenders also offer these and this practice of getting pre-approved can be either good or bad depending on the needs of the small business owner.

The good benefits are:

- You know in advance what your resources are.
- You can compare the offer to your business or cash flow plan to see if the loan will fit.
- You can quickly determine if the offer meets your overall financial needs.
- Typically an offer will spell out any limitations, conditions or requirements to get the loan.
- Pre-approval allows you to concentrate on other business matters.

The down side is:

- You are not really approved and what they are saying you will be approved once they get all of the required information. The important thing about pre-approval is "to always get it in writing."
- A lender will use this sales technique as a "lock tool" by making sure you stop any additional shopping and give them the loan package.

Whether to go this route or not is depends on a number of factors. If you know, exactly what the potential downside is and how to mitigate them then getting your loan pre-approved is not a poor business decision. Just make sure you get it in writing.

## ARE YOU CREDIT WORTHY?

Before a bank will lend you money, the lender must feel satisfied with the answers to the following questions.

- What is your character -- will you want to repay the loan?
- How capable are you in managing the business -- are you able to repay the loan?
- What is the specific purpose of the loan? Is it a short- or long-term need?
- Do you have a clear financial plan and forecast showing why you need the loan and how you will pay it back?
- Is the loan request large enough to cover any unexpected change in your situation, but not so large that it is not affordable?
- What is the general economic outlook for your business and industry?
- Do you have a reasonable amount at stake in the business?
- What collateral is available to secure the loan amount?

## SOME DO'S AND DON'TS WHEN WORKING WITH A SBA LENDER

1. Locate the RIGHT person to speak with and make an appointment - do not just drop in.

2. Make sure you and the lender have enough time to take care of business.
3. Tell it like it is, both good and bad.
4. Be prepared. Bring all necessary information with you including exact figures on all expense items rather than estimates.
5. Think things through before you make a request and be certain to support your request.
6. Listen to what they say. The banker is a source of counsel and guidance.
7. If you do not understand what has been said or not said, ask questions.
8. Sell yourself and your abilities.
9. If you have to wait, do not get impatient - do not leave.
10. When seeking a loan, have a definite plan but one that is flexible enough to allow for changes in operations.
11. Do not make promises to your banker that you know you can't keep.
12. If you cannot meet a commitment, advise the banker before he has to call you.
13. Do not telephone your banker for interest rate quotations on a loan. Visit them personally, as it sends a better message.
14. Keep your banker informed of progress or problems. In other words, keep the communication channels open.
15. If you fill out a personal financial statement, always complete the form thoroughly and truthfully.

#### **GETTING HELP IN SELECTING THE RIGHT LENDER**

We realize that all SBA lenders are different and it will be difficult to find a lender especially if you are a business start-up. Most entrepreneurs need to get their loan approved quickly. This is also, why many lenders are moving into computerized lending such as Credit Scoring. For this reason, we recommend you attend a local SBA Loan Clinic hosted by your local SCORE Chapter. Please give us a call at (602) 745-7200 and we can help you with finding the right lender for your needs.

#### **SBA LOAN CLINICS**

SBA and SCORE host no-cost loan clinics every month. To register for a free loan clinic near you, please call the following:

<u>Area</u>	<u>Phone</u>	<u>Hosted By</u>
Tucson	(520) 260-6617	SCORE Chapter 689 (Tucson)
Phoenix	(602) 745-7250	SCORE Chapter 105 (Phoenix)
Show Low Area	(928) 380-0689	Gail Hanson, Sr Area Manager – ShowLow